CHURCH OF SCIENTOLOGY INTERNATIONAL

EXEMPTION APPLICATION

FORM 1023

ATTACHED STATEMENT

CSI Prod 11-4-93 150063

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CHURCH OF SCIENTOLOGY INTERNATIONAL
Attached Statement to IRS Form 1023

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A. Introduction

Church of Scientology International ("CSI") was organized as a California nonprofit religious corporation on November 19, 1981 for the exclusive purpose of serving as the Mother Church of the Scientology faith and exercising ecclesiastical authority as to the practice and propagation of the religion throughout the world. (Copies of CSI's articles of incorporation, restated articles of incorporation, articles of amendment and bylaws are attached as Exhibits 1, 2, 3 and 4, respectively.) As discussed below, CSI operates exclusively for its religious purpose by guiding, supporting and coordinating the activities of Scientology churches, missions and related organizations on matters relating to the ministration of religious services, training of clergy, dissemination and propagation of the faith, ecclesiastical administration and social-betterment activities.

The axioms, doctrines, tenets, rituals, practices, activities, history, ecclesiastical and corporate hierarchy of the Scientology religion are described in

detail in WHAT IS SCIENTOLOGY?, (an 833 page encyclopedic book which serves as the definitive reference work on the religion) as well as throughout the balance of this application. It should be understood that WHAT IS SCIENTOLOGY? provides an exhaustive description of Scientology and its uses and organizations. Of course a full understanding of Dianetics and Scientology and the actual application of the three zones of its religious technology -- Ethics, Technical, and Administration -- is only possible through full study of the Scripture itself, which is contained in the forty million written and spoken words on the subject by L. Ron Hubbard, the Founder of Dianetics and Scientology. Those materials are described within this submission and all requested materials have already been provided to the Service. WHAT IS SCIENTOLOGY? is, however, the authoritative and comprehensive reference on the religion and church of Scientology. (Exhibit 9.)

1. The Scientology Religion

Scientology is a religion based upon the research, writings and recorded lectures of its founder, L. Ron

Hubbard, which collectively constitute the Scriptures of the religion. A Scientologist is one who recognizes the writings and recorded spoken words of L. Ron Hubbard as providing the fundamental keys to an understanding of his or her existence.

The Scientology Scriptures are the sole source of all the doctrines, tenets, sacraments, rituals and policies of the Scientology faith. They encompass more than 500,000 pages of writings, nearly 3,000 taped lectures and over 100 films.

The basic tenet of Scientology religious technology is that man is an immortal spirit who has lived through countless previous lifetimes and who will live again and again. Although he has a mind and a body, he is himself a spiritual being. The ultimate goal of Scientology is "a civilization without insanity, without criminals and without war, where the able can prosper and honest beings can have rights, and where Man is free to rise to greater heights."

The principal religious practices in Scientology are "auditing" and "training", which consist of a gradient scale of religious services addressing the spirit. The purpose of auditing is to unburden man of past painful experiences and to orient him as a spiritual being. Auditing results in an increase in spiritual awareness and ability. Ultimately the person achieves certainty of himself as a spirit and freedom from unwanted burdens. At this point he also is certain of immortality. "Training" also increases spiritual awareness and ability for the individual and enables a person to utilize the religious technologies of Scientology to improve conditions with himself and others.

Scientology is a very exact faith, and a fundamental doctrine of the religion is that its religious services must be orthodox. This doctrine holds that spiritual salvation can be attained if, and only if, the path to salvation outlined in the Scripture's religious technology is followed without deviation. This path starts with the applied religious philosophy expounded in Dianetics: The Modern Science of Mental Health, which Mr.

Hubbard wrote in 1950, and develops on through increasing levels of spiritual enlightenment contained in other texts written by Mr. Hubbard. Each of the levels of this ascending spiritual path is described in the Scientology Classification, Gradation and Awareness Chart, a copy of which is attached as (Exhibit 10.)

The portion of the Scientology religious technology that constitutes the upper levels of spiritual awareness is called the religion's "advanced technology." Scientology doctrine holds that the advanced technology can be grasped only by those who have attained very high levels of spiritual awareness; thus only Scientologists who have progressed to the appropriate levels of spiritual awareness are permitted to see the advanced technology materials.

The Scientology faith is propagated through an international ecclesiastical hierarchy of hundreds of churches and missions located throughout the United States and abroad. Individual churches within the hierarchy either minister Scientology religious services

to their parishioners or provide ecclesiastical management and support services to other churches. Churches that minister to parishioners also conduct religious training both as seminary training for Scientology ministers and for the spiritual enlightenment of parishioners.

2. The Scientology Marks and Advanced Technology

Scientology churches assure parishioners that their services are orthodox by providing them under the imprimatur of certain marks associated with the religion. These Scientology religious marks include the terms "Dianetics," "Scientology," and Mr. Hubbard's name, initials and signature. When Scientology parishioners see these marks they know for certain that the services they are receiving are orthodox and have been taken directly from the Scriptures.

Religious Technology Center ("RTC"), a California nonprofit religious corporation, owns the Scientology religious marks and the right to use the advanced technology in the United States and is licensed the right

to use the advanced technology outside of the United States. (RTC is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.) As discussed below, RTC delegates rights to use the advanced technology and religious marks to churches in the ecclesiastical hierarchy and then supervises their activities to ensure compliance with Scriptural requirements. (Copies of the agreements pursuant to which RTC received its rights to the marks and advanced technology are attached as Exhibit 11 and 12, respectively.)

Church of Spiritual Technology ("CST") has a limited power to acquire RTC's rights to the advanced technology in the United States and religious marks worldwide if, and only if, they (i) are not preserved in accordance with the Scientology Scriptures, (ii) are used in a way that both is contrary to the Scriptures and seriously damages the Scientology religion or Mr. Hubbard's image, or (iii) are in danger of appropriation by an entity outside of or hostile to the religion.

CST conducts an extensive program of religious activities to preserve and protect the Scientology Scriptures for use by future generations. CST also is the designated beneficiary of the bulk of Mr. Hubbard's estate, including all his copyrights to the Scriptures and his remaining rights in the marks and advanced technology, on the condition CST obtains recognition of its tax-exempt status. If CST does not obtain recognition of its exemption, Mr. Hubbard's estate is to be distributed to one or more organizations recognized as exempt under section 501(c)(3) that operate exclusively for the purposes of the Scientology religion.

CST's initial application for recognition of exemption was denied, see Church of Spiritual Technology v. United States, 26 Cl. Ct. 713 (1992), aff'd per curiam 1993 U.S. App. LEXIS 7023, and CST's petition for certiorari is due in August 1993. However, CST is filing a second exemption application concurrently with this application. At present, Mr. Hubbard's bequest to CST is residing in his testamentary trust until CST's exemption finally is determined. Until then, Mr.

Hubbard's trust will continue to safeguard and care for the religious properties contained in his Estate.

3. CSI's Activities

The churches and other organizations that comprise Scientology's ecclesiastical hierarchy recognize CSI as the authority on ecclesiastical matters by virtue of its status as the Mother Church. CSI's ecclesiastical authority is further enhanced by a written covenant between it and RTC with respect to the use of the Scientology religious marks by churches and other organizations within the ecclesiastical hierarchy. (A copy of the covenant is attached as Exhibit 13.)

Through the covenant, RTC has given CSI the right and responsibility to permit the organizations of the religion of Scientology to use the marks. Without CSI's written authority to use the marks, and RTC's approval, an organization cannot legally use the marks and thus cannot call itself a Scientology organization. Basically, these written covenants formalize the relationship of the churches within the hierarchy and

create legal rights and duties with respect to the marks that are cognizable in the secular world.[1/] Thus, if a church continues to minister services under the name Scientology despite CSI's objections, CSI is able to stop the practice through the civil judicial system.

These covenants create a very workable framework for assuring orthodox use of the religious marks. Basically, CSI has full responsibility for supervising use of the marks by the churches and other organizations with which it has entered into covenants, as well as those that have entered into agreements with IGN. RTC, in turn, supervises CSI's use of the religious marks. As discussed in more detail below, CSI has entered into covenants with each church within the hierarchy and with the ecclesiastical bodies responsible for managing Scientology missions and field ministries.

[1/] In countries where contracts by religious corporations are not enforced, rights to the Scientology marks are granted to local organizations by Inspector General Network ("IGN"), a nonprofit corporation that was formed to serve as an integrated auxiliary of RTC. (See discussion at section F(4), below.)

Neither CSI nor any other church pays royalties for use of the marks to RTC or any other entity, though CSI may charge South African churches a royalty in the future. Pursuant to its covenant with RTC, CSI reimburses RTC for its reasonable and necessary costs and expenses of operations relating to the ownership, administration, protection, maintenance and enforcement of the marks, including a fair share of RTC's overhead costs and expenses.

CSI's primary function is to coordinate the activities of all churches of Scientology and their related organizations to ensure they are working in harmony toward Scientology's ultimate goal -- "a civilization without insanity, without criminals and without war, where the able can prosper and honest beings can have rights and where Man is free to rise to greater heights."

CSI carries out this function by providing ecclesiastical guidance and programmatic support to the various churches of Scientology and related organizations

through two principal ecclesiastical management bodies -- the Watchdog Committee and the International Management Executive Committee.

The Watchdog Committee ("WDC") is a committee within Commodore's Messenger Organization International ("CMO INT"). WDC's responsibility is to monitor the Church's ecclesiastical management bodies (such as the International Executive Strata, Flag Bureaux, Scientology Missions International, etc.) to ensure that they are properly established and functioning in accordance with policy. Each member of WDC is responsible for overseeing the management of a sector of the religion (Class V churches, Sea Org churches, Flag Service Organization, etc.). WDC utilizes CMO INT and other CMO units as its observation and execution arms to ensure that management bodies are established and functioning.

The International Management Executive Committee ("IMEC") actually directs and is responsible for the performance of the Church in its various activities and functions. It is comprised of "Executives International"

who are well-versed and experienced in Scientology and its ecclesiastical management procedures. Each Executive International is responsible for one of the eleven functions necessary to the expansion of a Scientology organization such as the production of religious scriptural material, dissemination, establishment of Church organizations and so forth. These executives formulate broad planning and provide programming to Scientology organizations to carry out. Their plans and programs are executed through CSI's middle management echelon, the Flag Bureaux, located in Los Angeles.

The Commanding Officer CMO INT, Marc Yager, also serves as the WDC Chairman and is the senior ecclesiastical executive in CSI. The International Management Executive Committee is headed by Guillaume Leserve, the Executive Director International, which is the most senior management position in the Church.

CSI oversees the ministration of Scientology religious services to ensure orthodoxy. It organizes and produces the written and spoken Scientology Scriptural

materials into books, recordings, transcripts, course materials and other usable forms and disseminates them where needed. CSI helps establish and staff new churches and expand existing ones. It helps train staff in Scientology religious technology and ecclesiastical administration. It provides needed assistance on financial planning and management and on capital acquisitions and development. It provides direct financial assistance when necessary. It also directs broad-scale proselytization campaigns throughout the world on television and radio and in magazines. In short, CSI is the one entity to which Scientology organizations can look to for advice, guidance and support.

Examples of a few of the many forms of assistance CSI provides other churches include:

> Technical Bulletins of Dianetics and Scientology: CSI compiled all of the technical bulletins and other technical issues by L. Ron Hubbard -- a total of over 2,600 issues -- into an encyclopedia of the Scientology religious technology. The full set includes 13 chronological volumes, four subject volumes and a master index for a total of 18 volumes. This information is invaluable to churches of Scientology, individual Scientology ministers

and all Scientologists in having the full Scriptural materials of Mr. Hubbard readily available and easy to reference. (See pages 44-47 of The Bridge of Knowledge, Books Containing Ron's Legacy of the Tech, Exhibit 14.)

Organization Executive Course ("OEC"): CSI compiled the new OEC course volumes, comprising the encyclopedia of Scientology administrative technology including all of the policy letters written by L. Ron Hubbard. The set includes over 2,000 policy letters for a total of over 10,000 pages in twelve volumes. (See pages 343-345 of WHAT IS SCIENTOLOGY?, Exhibit 9.)

Technical Course Materials: Over the last several years CSI has researched, compiled and published new textual materials for religious training courses containing issues that have been confirmed as Mr. Hubbard's original writings. These materials include the full Saint Hill Special Briefing Course, the most comprehensive religious training course in Scientology.

Staff Training Courses: CSI compiles course materials to train staff of churches of Scientology in the exact policies and other materials Mr. Hubbard wrote on the administrative policy that applies to their respective duties (referred to as "hats" in Scientology). An example, the Chaplain Mini-Hat, is included at Exhibit 15.

Tape Series: L. Ron Hubbard gave nearly 3,000 lectures on Dianetics and Scientology. CSI is producing a substantial number of these tape recordings on cassette (along with full transcripts), making much of this original material by Mr. Hubbard available to the public for the first time. See The Path to Truth, Ron's Recorded Legacy of the Tech for a

complete catalogue of recorded lectures, Exhibit 16.

Technical Training Films: CSI produces training films which are used intensively in technical courses to teach correct application of the technologies of Dianetics and Scientology. These films were written and, in many cases, directed and narrated by L. Ron Hubbard, and cover specific technical aspects and their application in auditing. See page 165 of WHAT IS SCIENTOLOGY?, as well as pages 228 and 229 which show these training films as part of the Saint Hill Special Briefing Course, Exhibit 9.

E-meter counselling devices: CSI produces E-meter counselling devices which are used in the ministration of Scientology religious services and made available to Scientologists throughout the world. In addition to the E-meter itself (of which various kinds exist, each developed and designed for its own specific purpose), CSI also produces a series of E-meter accessories to help achieve standard auditing results. See pages 73-83 of The Path to Truth, Ron's Recorded Legacy of the Tech, Exhibit 16.

Extension Courses: In order to make religious services available to parishioners who do not live near a church or mission, CSI produces "home-study" extension courses which assist the many readers of Mr. Hubbard's books to gain a better and more thorough understanding of the scriptures. Each extension course covers the entirety of one of Mr. Hubbard's religious books and enables the reader to acquire the data in a series of lessons which are mailed to, and graded by, the parishioner's local Church. There are extension courses for nearly all of Mr. Hubbard's Dianetics and Scientology books.

Translated Books and Materials: In order to make the vast technology of Dianetics and Scientology available to the non-English speaking public, CSI has embarked upon the task to get the complete library of books, materials, recorded lectures and technical training films translated into many different languages. Over the past few years, a large number of books and course materials containing the technology of Dianetics and Scientology were translated into 4 different languages (German, French, Spanish, Italian); the book Dianetics, the Modern Science of Mental Health is now available in numerous different languages.

Audio/Visual Programs Disseminating Dianetics and Scientology: CSI developed this program for broadscale dissemination of Dianetics and Scientology through television and radio. This program benefits all Scientology churches because it will attract new members to the religion. (Exhibit 17, How To Use Dianetics: A Visual Guidebook To The Human Mind and Exhibit 18, Scientology: Improving Life in a Troubled World (reading selections from L. Ron Hubbard's books for radio airing).

Ron The Philosopher: CSI compiled this booklet to provide information on L. Ron Hubbard's researches in the field of philosophy that resulted in the development of Dianetics and Scientology. (Exhibit 19.)

International Scientology News: A periodic newsletter that CSI publishes to inform Scientologists about news and other current developments at various churches of Scientology located throughout the world. (Exhibit 20.)

The Church of Scientology: A Vital Force in Your Community: CSI compiled this booklet

> so churches could provide the public with examples of contributions that Scientologists are making to society by way of community programs coordinated by churches of Scientology around the world. (Exhibit 21.)

CSI's central offices are located in Los Angeles. CSI also has administrative offices at its facility in Hemet, California that primarily houses its film and sound production facilities as well as Scientology scriptural compilations and translations units. CSI has approximately 1,350 staff personnel. It is governed by a board of five directors who are elected by a self-perpetuating board of five trustees. CSI's trustees and directors must be ministers of Scientology in good standing. None of CSI's trustees or directors are compensated for their services as such.

B. The Scientology Ecclesiastical Hierarchy

The churches that make up the structure of the Scientology religious hierarchy are ecclesiastical entities. They are not secular entities, and they therefore are not cognizable under secular law. Like other churches, the Scientology religious hierarchy also has created a second external structure of civil

corporations through which the religion interrelates with the secular world. As Professor Whelan noted in his seminal article on the status of churches under the Internal Revenue Code:

> "In actual fact, however, the American churches have diverse, complex and confused structures. They are more like molecules than atoms. Moreover, each church has a double structure: one internal, in its own ecclesiastical law, and the other external, in American civil law.
>
> . . .
>
> ". . . Thus, from a purely technical point of view, the Roman Catholic Church does not exist as such for federal tax purposes. What does exist is a conglomeration (not a corporate conglomerate) of distinct taxable entities united in religious faith, worship and authority but not in civil law identity or control."

Charles M. Whelan, "Church" in the Internal Revenue Code, the Definitional Problems, 45 Fordham Law Review 885, 903-05 (1977).

The structure and entities that make up the ecclesiastical hierarchy of the Scientology religion, including important ecclesiastical staff positions and responsibilities, are described in detail in the book The Command Channels of Scientology (Exhibit 22), which CSI

prepared for use by the staff of churches and other entities that belong to the ecclesiastical hierarchy. This book contains an extensive discussion of the internal structure of Scientology. This booklet, while useful, was published several years ago and there have been some subsequent organizational changes as the religion evolves. Where there is a variance between the Command Channels booklet and this or any related Form 1023 exemption application, the Form 1023 supersedes the booklet.

The external structure -- the secular entities that determine Scientology's posture for civil purposes -- is described in detail in the book WHAT IS SCIENTOLOGY? (Exhibit 9) and throughout the balance of this application.

To the extent possible under the laws of the country in which they operate, churches of Scientology are organized as nonprofit religious corporations. All United States churches are housed within such corporations. Generally there is a separate corporation

for each church, but occasionally more than one church may operate within a single corporation. For example, almost every continental liaison office -- an ecclesiastical body that liaises between CSI and lower Scientology organizations in the ecclesiastical hierarchy -- is housed in a corporation that also houses one or more Scientology churches that minister to parishioners.

The articles of incorporation, bylaws or other organizational documents of churches organized as religious corporations include specific provisions requiring adherence of the church to the tenets and policies of the religion and, for subordinate churches, to the superiority of the ecclesiastical authority of CSI as the Mother Church. These provisions also expressly subordinate CSI's ecclesiastical authority to local law and to provisions of the church's articles of incorporation and bylaws.

Within Scientology's external framework, each separate church corporation is governed by a board of directors that is responsible for electing officers. The

directors and officers of the corporation are responsible, both as a matter of law and of ecclesiastical policy, for ensuring the corporation complies with all applicable secular laws. In many cases, the board of directors is itself elected by a self-perpetuating board of trustees. The trustees, in turn, are responsible for electing and removing directors. As a general matter, the trustees (and often the directors) must be ministers of Scientology in good standing with CSI in order to serve as trustee (or director).

All Scientology churches at the higher levels of the ecclesiastical hierarchy are staffed by Scientologists who have joined the Sea Organization, the religious order of the Scientology faith. As discussed in detail in Section E, Scientologists who are members of the Sea Organization have made a total commitment to the Scientology faith by dedicating their lives to religious service. Sea Organization personnel are subject to a strict code of moral conduct and generally live a

communal existence and receive a nominal weekly allowance and occasional modest performance bonuses.

The Scientology churches that provide religious services to parishioners are arranged in a hierarchy that reflects the gradient nature of the religion's spiritual levels. As discussed below, the lowest levels of religious services are ministered by independent ministers and by missions of Scientology; intermediate levels by Class V churches; high levels by Saint Hill organizations and Advanced Organizations; higher levels by Church of Scientology Flag Service Organization; and the highest level by Church of Scientology Flag Ship Service Organization. (See Chapter 21 of WHAT IS SCIENTOLOGY, Exhibit 9).

As the Mother Church of the Scientology religion, CSI exercises ultimate ecclesiastical authority over these hierarchical churches. It furnishes them with ecclesiastical advice, programs and guidance with respect to ministration of religious services, propagation and dissemination of the faith, religious administration and

policy, and financial planning and management. CSI also provides religious training to the ministers and staff of churches within the hierarchy. CSI provides its ecclesiastical and training services either directly or indirectly through continental liaison offices.

The following makes up the Scientology ecclesiastical hierarchy:

1. Field Ministers

At the lowest level of the Scientology ecclesiastical hierarchy are the individual ministers of Scientology who do not serve on the regular staff of a church or a mission. Under Scientology ecclesiastical policy, individual Scientology ministers may minister introductory religious services up through New Era Dianetics. See page 350 of WHAT IS SCIENTOLOGY?, Exhibit 9, for a list of religious services field ministers provide. They may not train clergy. CSI interacts with individual field ministers through an intervening management entity, International Hubbard Ecclesiastical League of Pastors ("IHELP"). IHELP is a nonprofit

religious corporation that was formed in November 1982 to serve as an integrated auxiliary of CSI by functioning as the Mother Church of field ministers. (It is applying for recognition of its exemption under section 501(c)(3) concurrently with this application. IHELP's goal is to propagate the Scientology religion throughout the world by concentrating on individual ministers. IHELP accomplishes its goal by acting to ensure that the number of Scientology ministers practicing in the field continues to grow and that their ministries are orthodox and comport with Scientology Scriptures. IHELP also provides individual and group ministries such religious assistance and support as they may need.

As the Mother Church of the Scientology ecclesiastical hierarchy, CSI furnishes IHELP with ecclesiastical advice, programs and guidance, staff training and general coordination of activities with other organizations and churches in the hierarchy. IHELP exercises similar authority with respect to independent Scientology ministers who minister to Scientology parishioners and who do not serve on the staff of a

Scientology church or mission. CSI has authorized IHELP to assist independent Scientology ministers to maintain orthodoxy by permitting them to use certain marks associated with the practice of the religion only under the religion only under its supervision. (A copy of the agreement permitting IHELP to use the marks and to in turn permit their use by individual ministers is attached as Exhibit 23; a representative agreement between IHELP and individual ministers is attached as Exhibit 24.)

Ministers who join IHELP as senior members support IHELP's program by contributing to it annual dues and a tithe equal to ten percent of the contributions they receive for performing Scientology ministerial services. IHELP uses this funding to support its day-to-day activities, to compensate CSI for its ecclesiastical guidance, and to reimburse CSI for portions of its broad-scale dissemination activities and legal costs. It contributes to CSI according to its means.

2. Missions

At the next level of the Scientology ecclesiastical hierarchy are the missions of Scientology. A Scientology mission is a regularly-organized church and congregation that is authorized to minister introductory Scientology religious services through New Era Dianetics. Missions cannot train clergy. The primary function of missions is to contact the general public and bring new people into Scientology and encourage their spiritual advancement through the higher levels of the religion. Often Missions are formed in parts of the world which are new to Scientology. When a mission grows to sufficient size, it usually becomes a Class V church. There are 243 missions located throughout the world. See page 351 of WHAT IS SCIENTOLOGY?, Exhibit 9, for a list of religious services ministered by missions.

CSI interacts with missions through an intervening management-entity, Scientology Missions International ("SMI"), a California nonprofit religious corporation that serves as the Mother Church for missions. (It is

applying for recognition of its exemption under section 501(c)(3) concurrently with this application.) SMI's ecclesiastical responsibility is to proselytize and disseminate the religion by helping to form new missions and by assisting existing missions to grow. A representative copy of a journal SMI publishes for missions, Centre, is attached as Exhibit 25.

SMI's religious program of activities is very similar to IHELP's -- it acts to ensure that the number of Scientology missions continues to grow and that their ministries are orthodox and comport with Scientology Scripture. CSI also interrelates with SMI in the same way it interrelates with IHELP -- by providing SMI with ecclesiastical advice, programs and guidance, staff training, and general coordination with respect to the activities of other churches and organizations in the hierarchy.

CSI has authorized SMI to exercise similar authority with respect to Scientology missions throughout the world. SMI, in turn, assists existing and newly-formed

missions to maintain orthodoxy by permitting them to use certain marks associated with Scientology and Scientology missions only under its supervision. Not unlike IHELP's function in the ecclesiastical hierarchy, SMI provides guidance on matters of orthodoxy to its subordinate organizations, the missions, while CSI guides SMI. (A copy of the agreement by which CSI permits SMI to use the marks is attached as Exhibit 26.)

SMI uses several forms of agreements in authorizing the orthodox use of the Scientology religious marks. When an individual or group of individuals desires to form a mission, SMI will designate one to serve as the mission's "mission holder" (the highest ecclesiastical position within a mission), and authorize him or her to use the marks on an interim basis until a suitable nonprofit religious corporation is formed. (A representative copy of SMI's authorization is attached as Exhibit 27.) After incorporation, missions execute more formal agreements concerning use of the marks (Exhibits 28 (for the United States missions) and 29 (for foreign missions)) as well as concerning the care of confidential

information their parishioners provide them in the ministration of religious services. (Exhibit 30). In countries where agreements by religious corporations are not enforced, rights to the Scientology marks are granted to local organizations that would otherwise qualify as missions through a system of secular corporations that serve as integrated auxiliaries of RTC and CSI. (See discussion at section F(4), below.)

In recent years SMI has actively sought to bring Scientology to developing countries, including many where western-style religions are in the minority. SMI's efforts have been extraordinarily successful, and missions are forming or operating in such disparate countries as Russia, Hungary, Brazil, Pakistan, Ghana, India, Turkey and Malaysia. SMI often encourages a "missionary" to visit such developing areas for the purpose of either forming a mission or finding someone else to do so.

Missions of Scientology support SMI's religious program of activities by contributing a tithe equal to

ten percent of the contributions they receive for performing Scientology ministerial services. SMI uses this funding to support its day-to-day activities and to provide for religious programs, dissemination and defense.

3. Class V Churches

At the next level of the Scientology ecclesiastical hierarchy are Class V churches, which provide religious services at the lower and intermediate levels (through Clear Certainty Rundown and Sunshine Rundown). Class V churches also have the authority to train and ordain ministers (the "Class V" designation relates to the highest level of auditor training provided by such churches). Class V churches do not minister Scientology's advanced technology. A list of the Scientology religious services that Class V churches are authorized to minister to their parishioners is contained at page 352 of the book WHAT IS SCIENTOLOGY? (Exhibit 9). At present, there are 156 Class V churches throughout the world, with 56 located in the United States.

CSI directly grants Class V churches the right to use the Scientology religious marks in ministering orthodox religious services to their parishioners. (A copy of the form used is attached as Exhibit 31.) In countries where agreements by religious corporations are not enforced, rights to the Scientology marks are granted to local organizations that would otherwise qualify as Class V churches through a system of secular corporations that serve as integrated auxiliaries of RTC and CSI. (See discussion at section F(4), below.)

CSI has entered into ecclesiastical management agreements with the churches through which it provides them with ecclesiastical advice, programs and guidance, staff training and general coordination of activities with other organizations and churches in the hierarchy. (Exhibit 32.) In exchange for these services, the churches support CSI's program of activities by making ecclesiastical management payments in accordance with their means, generally around 12.5 percent of contributions received, to be offset against CSI's billings.

CSI also has entered into an agreement with each Class V church with respect to the care of confidential information parishioners provide them in the ministration of religious services (Exhibit 33).

Class V churches are required to adopt organizational documents that dedicate their activities and assets exclusively to Scientology religious purposes. To the extent permitted by local law, each Class V church is governed by a board of directors elected by a board of trustees, and both directors and trustees must be ministers of Scientology in good standing with CSI in order to be eligible to continue to serve as director or trustee.

4. Celebrity Centres

Certain Class V churches called "Celebrity Centres" specialize in proselytizing and disseminating Scientology among artists, professionals and other community leaders, but are open to all Scientologists. Celebrity Centres are organized and operated either as a Class V church or

as a local parish under the guidance of Church of Scientology Celebrity Centre International ("CC INT"), a California nonprofit religious corporation formed to minister religious services to its congregation and to oversee the activities and development of Celebrity Centres throughout the world. CC INT is unique among Class V churches because its staff are members of the Sea Organization (as described in Section E below), because it provides ecclesiastical guidance to other churches and because it maintains a religious retreat with hotel and dining accommodations to serve as a major hub for the Scientology religious community. Celebrity Centres are just like other Scientology churches except that their congregations include many local leaders and other celebrities. At present there are 15 Celebrity Centres, 6 of which are local parishes and 9 of which are Class V churches).

CC INT serves as the Mother Church of Celebrity Centres and is responsible for overseeing their activities and assisting their growth. Thus, CC INT both ministers to the public and provides ecclesiastical

guidance to other Celebrity Centre churches and parishes throughout the world. (A representative copy of CC INT's publication Celebrity is attached as Exhibit 34.)

CSI and CC INT have entered into agreements concerning the provision of ecclesiastical services (Exhibit 35) and the care of confidential information CC INT receives from its parishioners (Exhibit 36) on the same basis as Class V churches. CSI has authorized CC INT to use the Scientology religious marks in ministering to its congregation and to permit local Celebrity Centre churches and parishes to use the marks in their religious services in accordance with the Scriptures. (Exhibit 37.) CC INT, in turn, has authorized the Celebrity Centre churches and parishes to use the marks in the orthodox ministration of religious services to their parishioners. (A representative copy of CC INT's authorization is attached as Exhibit 38.)

5. Saint Hill and Advanced Organizations

At the higher levels of the Scientology religious hierarchy are Saint Hill Organizations and Advanced Organizations.

Saint Hill churches are so named because the original Saint Hill church was located at Mr. Hubbard's home, Saint Hill Manor in East Grinstead, Sussex, England. It was there that Mr. Hubbard delivered the Saint Hill Special Briefing Course, the most extensive auditor training course in all of Scientology. Saint Hill churches specialize in advanced auditor training and in particular the Saint Hill Special Briefing Course which is the same as the original course that Mr. Hubbard taught except that the lectures are recordings of those he delivered live on the original course. Saint Hill churches are centralized to provide religious services to parishioners from both local and remote locations. A list of religious services offered by Saint Hill Churches is contained on page 354 and a description of the SHSBC is included on pages 228-230 of the book WHAT IS SCIENTOLOGY?, (Exhibit 9).

The Advanced Organizations offer advanced auditing and training, with an emphasis on auditing. This is where a parishioner progresses through the Operating Thetan levels to the completion of New OT Section V. The Advanced Organizations service parishioners from a wide area as they move up the Bridge from missions and Class V churches. A list of religious services offered by Advanced Organization churches is contained on page 355 and a description of the OT levels is contained on pages 222-223 of the book WHAT IS SCIENTOLOGY?, (Exhibit 9).

At present, there are four Saint Hill Organizations and four Advanced Organizations throughout the world. These ecclesiastical bodies are housed in four corporations. In the three locations outside the United States -- the United Kingdom (Church of Scientology Religious Education College), Denmark (Church of Scientology Advanced Organization Saint Hill Europe and Africa), and Australia (Church of Scientology, Inc.) -- the Saint Hill and Advanced Organization are combined into one church organization. In Los Angeles the Saint Hill and the Advanced Organization occupy the same

corporation (Church of Scientology Western United States) but operate as separate church organizations due to the size of their congregations and volume of religious services.

As with the Class V churches, CSI has entered into written agreements with each Advanced Organization with respect to the orthodox use of the Scientology religious marks (Exhibit 39), the care of confidential information provided by parishioners in the ministration of religious services (Exhibit 40), and the provision of ecclesiastical management services (Exhibit 41). CSI provides ecclesiastical management and other religious services to the Advanced Organizations either directly or through a continental liaison office, (an ecclesiastical body that generally is housed within the same corporation as the Advanced Organization it serves). The Advanced Organizations also have entered into a written agreement with RTC that authorizes them to use the lower levels of Scientology's advanced technology in accordance with strict Scriptural requirements (Exhibit 42).

The Advanced Organizations compensate CSI for its ecclesiastical management and other religious services by making necessary payments according to their means (usually 12.5% of contributions received) to be offset against CSI's billings. Pursuant to their agreements with RTC, the advanced organizations contribute to RTC six percent of the value of religious services they minister that utilize the advanced technology. RTC, in turn, retains ten percent of these contributions to cover part of its operating costs. Pursuant to the terms of the assignment agreement granting RTC rights to the advanced technology, it contributes the balance of what it receives to Church of Spiritual Technology to apply toward its archival and preservation programs.

6. Church of Scientology Flag Service Org, Inc.

At the next higher level of the Scientology religious hierarchy is Church of Scientology Flag Service Org, Inc. ("CSFSO"), a Florida nonprofit corporation located in Clearwater, Florida. (CSFSO is applying for recognition of its exemption under section 501(c)(3) concurrently with this application.)

The "Flag" in CSFSO's name originates from the Flag Service Organization's earliest ecclesiastical beginnings in 1967 aboard the Flag Ship Apollo and the name was maintained as tradition when the land-based organization was established.

CSFSO ministers the highest levels of auditor training through Class XII and auditing through New OT VII. It serves as the spiritual headquarters for Scientologists from all over the world who travel there to participate in religious services. It has approximately 750 staff, many of whom are fluent in several languages in order to minister to CSFSO's international congregation. A representative copy of CSFSO's publication Source magazine is attached as Exhibit 43. (See page 356 of WHAT IS SCIENTOLOGY?, Exhibit 9, for a list of religious services ministered at CSFSO).

As with other churches in the hierarchy, CSI directly grants CSFSO the right to use the Scientology religious marks in accordance with the Scriptures

(Exhibit 44), has entered into agreements with CSFSO concerning ecclesiastical management services (Exhibit 45), and the care of parishioners' confidential information (Exhibit 46). CSFSO receives managerial services directly from CSI. In exchange for CSI's ecclesiastical and other religious services and in accordance with Scientology policy, CSFSO supports CSI's program of activities by providing CSI the internal operating costs that it incurs each week.

RTC has authorized CSFSO to use the higher levels of the advanced technology in accordance with strict Scriptural requirements. (Exhibit 47.) As required by RTC's authorization, CSFSO contributes to RTC six percent of the value of religious services it ministers that utilize the advanced technology. As with the same contributions RTC receives from Advanced Organizations, RTC contributes 90 percent of these funds to CST to apply towards CST's preservation programs.

CSFSO ministers to Scientologists from all parts of the world -- approximately one-half of CSFSO's

parishioners come from outside the western hemisphere. Since it takes several weeks to complete many of CSFSO's religious services, its parishioners often must remain in the Clearwater area for long periods of time. CSFSO therefore maintains a religious retreat with facilities to provide for their meals and lodging and a safe, distraction-free environment while they are there participating in religious services.

CSFSO has a wholly-owned subsidiary, FSO Oklahoma Investments Corporation ("FSOOIC") through which CSFSO has made several investments over the years. FSOOIC has never realized profits or distributed any dividends.

7. Church of Scientology Flag Ship Service Organization

At the next level is Foundation Church of Scientology Flag Ship Service Organization ("CSFSSO"), a Netherlands Antilles religious foundation. Although organized as a foreign organization, CSFSSO is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

CSFSSO ministers the highest level of Scientology auditing (New OT VIII) as well as special Scientology religious courses unavailable elsewhere. (See page 357 of WHAT IS SCIENTOLOGY?, Exhibit 9, for a list of religious services ministered at CSFSSO.) CSFSSO is unique among Scientology churches in that it conducts its services aboard the M.V. Freewinds, a 7056 ton, 440 foot ship based in the Caribbean -- which forms an ideal religious retreat where parishioners can devote their full attention to spiritual advancement. A description of the Freewinds and of the religious services aboard the ship are contained in Freewinds, CSFSSO's magazine (Exhibit 48).

CSI directly grants CSFSSO the right to use the Scientology religious marks in accordance with the Scriptures (Exhibit 49) and has entered into agreements with CSFSSO concerning ecclesiastical management services (Exhibit 50), and the care of confidential information received from parishioners in the ministration of religious services (Exhibit 51.) RTC has authorized CSFSSO to use the highest released levels of the advanced

technology in accordance with strict Scriptural requirements. (Exhibit 52.) CSFSSO contributes to RTC six percent of the value of the religious services it ministers that utilize the advanced technology; RTC contributes 90 percent of the funds it receives to CST to apply to its preservation activities.

Because of CSFSSO's unique circumstances as an on-vessel church constantly sailing from port to port, several foreign secular corporations have been formed to provide it necessary administrative support and to carry out additional functions unique to ships (i.e., ship operations and passenger services).

The Flag Ship Trust is a Scientology religious trust formed in 1985 for the purpose of receiving donations from Scientologists who wanted to help their religion acquire a sea-going ship from which the highest levels of Scientology religious services could be ministered to parishioners from around the world.

Flag Ship Trust ("FST") serves two functions. It is the sole owner of the corporations that perform specific support functions for CSFSSO -- San Donato Properties, S.A. (which owns the Freewinds), Transcorp Services S.A. (which financed the purchase), Majestic Cruise Lines (which operates the Freewinds), FSS Organization (a vehicle for paying certain taxes in the Netherlands Antilles), and MCL Services which provides shore support and liaison services to Majestic Cruise Lines and CSFSSO in Curacao. Flag Ship Trust also serves as a repository for Scientology central reserves and uses its funds to support the operations and capital projects of the churches of Scientology. Flag Ship Trust is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

CSI also formed a nonprofit religious corporation as its integrated auxiliary to serve as a liaison between CSFSSO, Majestic Cruise Lines and CSI and other Scientology churches, organizations and individuals on shore. This organization, the Church of Scientology Freewinds Relay Office, Inc. ("CSFRO"), informs

Scientologists throughout the world of CSFSSO's religious program, helps register parishioners for religious services and courses and for the cruise itself, and then assists in getting them to and from the Freewinds. (Copies of the Relay Office's articles of incorporation and bylaws are attached as Exhibits 53 and 54, respectively.)

As discussed in detail in the exemption application that CSFSSO has filed, CSFSSO, Majestic Cruise Lines and CSFRO are currently undergoing a reorganization in which CSFSSO will undertake the activities Majestic and CSFRO have conducted and take over their respective assets, liabilities and staff personnel. After the reorganization Majestic, CSFRO and FSS Organization will dissolve.

CSI has granted CSFRO the right to use the Scientology marks in providing religious services to its staff and to use the marks related to the ship in its program in general (Exhibit 55.) CSFRO also receives managerial support and assistance from CSI.

C. Publications and Film Organizations

As discussed above, the Scientology religion is based on the research, writings, and recorded lectures of L. Ron Hubbard, which collectively constitute the Scriptures of the religion. As Mother Church of the Scientology faith, CSI is responsible for making the Scriptures and E-Meters (used in the ministration of Scientology religious services) available to Scientologists throughout the world.

CSI fulfills its responsibility to disseminate the Scriptures through an international network of publishing organizations operated exclusively for Scientology religious purposes. The three primary organizations performing this religious function are Bridge Publications, Inc. ("Bridge"), a California corporation which publishes books and other written Scriptural materials in the United States and Canada; New Era Publications ApS ("New Era"), a Danish corporation which publishes books and other written Scriptural materials in other countries; and an internal division of CSI called Golden Era Productions ("Gold"), which produces

Scriptural tape recordings, motion pictures and E-Meters for dissemination worldwide as well as various translations of Scriptures. In future years the countries Bridge will serve may expand to include all countries in North, Central and South America.

The operations of the Scientology publishing network have fully comported with section 501(c)(3). All organizations work in close liaison with and under the direct supervision of CSI staff personnel responsible for disseminating the Scriptures throughout the world. Pricing for Scriptural materials and E-Meters is set by CSI or under its close scrutiny. Scientology ecclesiastical policy requires that each price (or contribution rate) meet the following three criteria: (1) it must be affordable to a broad segment of the general public; (2) it must enable the organizations involved to recover their costs of production or delivery (whether incurred by the publisher or a church); and (3) it must be sufficient to enable the church (or publisher) to remain operational so it can continue performing its function, replenish stocks if necessary, and expand so it

can provide for and minister to an ever growing congregation.

As a general rule New Era, Bridge and Gold sell the Scriptures and other religious material they publish and produce directly to churches of Scientology throughout the world. New Era and Bridge deal with commercial retailers to disseminate introductory Scriptural texts such as Dianetics: The Modern Science of Mental Health and Scientology: Fundamentals of Thought, and to sell Mr. Hubbard's nonreligious texts.

Individual churches and missions of Scientology maintain bookstores where their parishioners can obtain copies of the Scriptures and E-Meters. Bookstores in the churches and missions generally sell printed Scriptural materials at the list prices issued from time to time by Bridge or New Era and authorized by CSI. (CSI also sets the prices for tape recorded lectures and E-meters that are produced by Gold.) Most all sales the bookstores make are at the 20 percent discount from list available to members of the International Association of

Scientologists (see section E, below). The bookstore may offer other discounts from time to time. They also may give individual parishioners discounts for large purchases.

While Bridge and New Era initially were organized as secular proprietary companies (thereby facilitating their transactions with trade outlets), they in fact have operated like organizations described in section 501(c)(3) over the years. Both companies dedicate their operations exclusively to Scientology religious purposes. Both adopted organizational documents that effectively meet the organizational test of section 501(c)(3) and prohibit them from operating for the benefit of private interests. Finally, both were wholly-owned by International Publications Trust, a Scientology religious trust organized and operated in accordance with section 501(c)(3).

In 1993 Bridge and New Era underwent a reorganization at the organizational level to reflect their dedication to religious, tax-exempt purposes.

Bridge amended its articles of incorporation to convert to a California nonprofit membership religious corporation with CSI as its sole member (with exclusive power to appoint its directors). Bridge is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application. New Era, which must continue to operate as a stock corporation, amended its articles of incorporation to add express religious purposes and to restrict eligibility for ownership of its stock only to organizations described in section 501(c)(3). These amendments enable New Era to meet the organizational test of section 501(c)(3). New Era also is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

CSI has entered into motion picture agreements with churches of Scientology concerning the orthodox exhibition of motion pictures on the various aspects of the Scientology religion. This includes Class V churches and Celebrity Centres (Exhibit 56), Saint Hill churches and Advanced Organizations (Exhibit 57), CSFSO (Exhibit

58), and CSFSSO (Exhibit 59). In exchange for use of the films, and to defray CSI's costs of production, each church provides CSI nine percent of the contributions they receive from parishioners for certain training services (CSFSO's weekly contribution rate is eleven percent of donations received for certain training services). CSI is authorized to enter into these arrangements through a written agreement it has with Mr. Hubbard's testamentary trust, which owns the copyrights to the films (Exhibit 60). In exchange for use of the films, the Class V churches provide CSI nine percent of the contributions they receive from parishioners for certain training services. CSI, in turn, pays a royalty to the owner.

Each mission also enters into a motion picture agreement with SMI pursuant to which it may show introductory films on the Scientology religion to their parishioners and interested members of the general public in accordance with the Scripture. (A representative motion picture agreement is attached as Exhibit 61.) SMI is authorized to enter into these arrangements through a

written agreement it has with Mr. Hubbard's testamentary trust, which owns the copyrights to the films (Exhibit 62). In exchange for use of the films, each mission provides SMI with a small one-time fee per film and two percent of the contributions it receives for ministering Scientology religious services to its parishioners. SMI uses these funds to help CSI defray the costs of production (Exhibit 63) and pays a royalty to the copyright owner.

1. Mr. Hubbard's Trust

Mr. Hubbard owned the copyrights to Scientology Scriptural materials and patents to E-Meters, and during his life he licensed the rights to produce and distribute Scriptures and E-Meters to various Scientology organizations. At present, Mr. Hubbard's testamentary trust (the "Trust") holds his copyrights and patents pending distribution of his estate and is receiving reasonable royalties in exchange for licensing the properties. As discussed previously, Mr. Hubbard's testamentary plan requires that these properties be distributed to Church of Spiritual Technology if it

obtains exemption under section 501(c)(3), or to a Scientology organization whose section 501(c)(3) status already is recognized if CST does not obtain exemption. As a result of this limitation on the distribution of Mr. Hubbard's estate, the copyrights and patents, and the royalties they are producing currently, are irrevocably dedicated to section 501(c)(3) purposes.

The Trust has continued Mr. Hubbard's practice of copyrighting his works and licensing the rights to produce and distribute Scriptural material to Bridge, New Era or CSI, as appropriate. In order to continue using Mr. Hubbard's name in the copyright notices (copyright notices of posthumous works must be in the name of the decedent's executor or personal representative), the executor of his estate (and later the trustee of the Trust) registered and used the fictitious name "L. Ron Hubbard Library" as a legal form of operation. As a result, copyright notices on Mr. Hubbard's posthumously registered works read "L. Ron Hubbard Library" rather than the individual name of Mr. Hubbard's personal representative.

At present, the licensing arrangement pursuant to which Bridge and New Era publish Scientology Scriptural material runs from Mr. Hubbard's estate (i.e., the Trust) directly to New Era and Bridge. New Era and Bridge distribute their publications directly to church book stores, which are primarily responsible for disseminating Scientology Scriptures and other religious material to church parishioners. The licensing arrangement for Mr. Hubbard's works of fiction runs either from the Trust directly to Bridge (for United States and Canadian publication rights) or from the Trust directly to New Era (for foreign publication rights).

The Trust relies on the technical expertise of Author Services, Inc. ("ASI") with respect to its financial and literary affairs. ASI helps the Trust manage Trust funds and supervise use of its literary properties. ASI works closely with Bridge and New Era with respect to Mr. Hubbard's fictional works and related artwork, film and soundtracks. ASI will continue this function as a wholly-owned subsidiary of CST once CST's exemption is recognized. ASI has never paid a dividend

and its shares are currently held by its employees subject to a $1 per share redemption agreement.

2. International Publications Trust

As noted above, until 1993 all the outstanding stock of New Era and Bridge was owned by International Publications Trust ("IPT"), a religious trust organized for the exclusive purpose of furthering the practice and dissemination of the Scientology faith. IPT's only activity has been to hold the stock to the companies that publish the Scientology Scriptures for the benefit of the entire religion. It owned all the outstanding stock of Bridge directly and, until 1992, it owned all the stock of New Era indirectly through an intermediary corporation, Publications Int Limited ("PIL"), which IPT also wholly owned. (Until 1992 IPT had to hold New Era's stock through an intervening corporate subsidiary because Danish law did not permit trusts to register as shareholders of Danish corporations. In 1992 the Danish law was changed and PIL was dissolved, leaving IPT with direct ownership of New Era's shares.)

IPT was organized and operated to meet the requirements of section 501(c)(3). Its instrument of trust contained language designed to satisfy the organizational test of section 501(c)(3). IPT also did not operate for the benefit of any private individual or entity. It has never made any distribution of income or assets and had no income or expenses.

IPT's wholly-owned corporate subsidiary, PIL, also operated in accordance with the requirements of section 501(c)(3). It never made any distribution of income or assets or paid unreasonable compensation (it had no employees). Its officers and directors served without compensation.

As covered elsewhere, IPT no longer owns Bridge and New Era. IPT is winding up its affairs and will dissolve as soon as practicable.

3. <u>New Era Publications</u>

New Era Publications International ApS publishes and distributes the Scientology Scriptures in countries other

than the United States and Canada. Prior to his death, Mr. Hubbard granted New Era the right to publish his religious writings world-wide, and his fictional work in all areas outside of the United States. Mr. Hubbard also granted New Era world-wide rights to produce E-Meters, recorded lectures and other properties. (Since 1988, E-Meters and tapes have been produced by Gold.) New Era, like Bridge and Gold, sells the religious publications and materials it produces to churches of Scientology located throughout the world.

Since New Era's program of activities is limited to countries outside the United States and Canada, until 1991 New Era granted Bridge the right to carry out its publication and production rights in these two countries. (As of 1991 these rights are granted to Bridge directly by Mr. Hubbard's testamentary trust.) New Era also granted Bridge the right to produce E-Meters world-wide, which activity Gold assumed in 1988. New Era also authorized World Institute of Scientology Enterprises ("WISE") to sublicense the rights to produce items bearing Scientology marks and deliver related services

until 1990, when WISE was granted a license for these rights directly from Mr. Hubbard's trust. New Era has formed subsidiaries in several countries so its activities there can be conducted by local corporations. These corporations are:

New Era Publications UK, Ltd. (United Kingdom); New Era Publications Italia, S.r.l (Italy); New Era Publications Deutschland, GmbH (Germany); New Era Publications France; SARL New Era Publications Japan, Inc.; New Era Publications Espana S.A. (Spain); New Era Publications Australia Pty. Ltd.; New Era Publications Group (Russia); Era Dinamica Editores S.A. de C.V. (Mexico); Importaciones y Exportaciones Nueva Civilizacion S.A. de C.V. (Mexico); Continental Publications (Pty) Ltd. (South Africa); and New Era Publications Israel.

With the exception of the Mexican and South African organizations, each of these subsidiaries is a wholly-owned subsidiary of New Era. Due to local legal requirements, all stock in the Mexican and South African

corporations are held for the exclusive benefit of New Era. New Era Publications Israel is dormant.

As noted above, although New Era was formed as a secular proprietary corporation, it has adopted special Rules of Procedure that effectively dedicate its activities to the furtherance of section 501(c)(3) purposes and recently amended its articles of incorporation to meet the organizational test of section 501(c)(3). New Era's shares have been transferred from IPT to CSI.

4. Bridge Publications, Inc.

Bridge Publications, Inc. is responsible for publishing and distributing Scientology religious books and other Scriptural material in the United States and Canada. Through separate licenses Bridge also publishes Mr. Hubbard's fictional work in these countries. Bridge previously manufactured E-Meters, but Gold took over this activity in 1988. For the most part, Bridge contracts out actual manufacture of its books. A detailed description of some of Bridge's dissemination products is

contained in the attached catalogue, The Bridge Of Knowledge, Books Containing Ron's Legacy Of The Tech, Exhibit 14).

5. Golden Era Productions

Golden Era Productions plays a vital role in the expansion of the Scientology religion, furnishing it with a wide variety of dissemination items. Gold produces films, video tapes and laser discs at its in-house film studio for introducing the religion to the general public and films which depict different aspects of Scientology religious technology vital for the training of auditors. Virtually all of the steps of film production, save final laboratory work and printing, are conducted at Gold's Hemet location. There are plans to construct, equip and operate an on-site film laboratory in the future.

Gold also produces booklets, brochures and posters, including still photography and artwork for the religion. It produces radio and television spots and feature-length programs for use in proselytizing the faith. Musicians on Gold's staff compose, arrange, record and mix hymns

for the religion and provide music soundtracks for films, videos, and radio programs. Gold also provides the technical personnel, videos and music to stage internationally televised events on major Scientology holidays.

Gold makes many of Mr. Hubbard's nearly 3,000 recorded Scriptural lectures (including transcripts) available to the religion by mixing, editing and reproducing them on high quality tape cassettes and may in the future also provide them on compact discs.

Gold also produces E-Meters, a religious artifact which measures the mental state or change of state of a person receiving auditing, for use by auditors around the world. E-Meters are essential to most auditing sessions and are precision instruments made to exacting specifications to achieve uniform and reliable performance. Auditors send their E-Meters to Gold at least once every two years to ensure they meet all specifications, are properly functioning and for any needed repairs. (See pages 157-162 of WHAT IS

SCIENTOLOGY?, Exhibit 9, for an explanation of the E-Meter and its use in auditing.)

As noted above, Gold is an ecclesiastical body housed within CSI. A more detailed description of some of Gold's dissemination products is contained in the attached catalogue, The Path To Truth, Ron's Recorded Legacy of the Tech. (Exhibit 16.)

D. Social Betterment Organizations

Though Mr. Hubbard is best known for founding the religion of Scientology, he also authored very effective technologies for handling society's ills and bettering the lot of mankind as a whole. Over time these technologies have developed into four general social-betterment programs, each addressing a specific area of current social concern: Narconon, a drug rehabilitation program; Applied Scholastics, an educational program; Criminon, a criminal rehabilitation program; and a program for improving public morality in general based on a nonreligious moral code called "The Way To Happiness." The public has come to associate the

four names Narconon, Applied Scholastics, Criminon and The Way To Happiness with highly effective and successful programs to better society.

For many years CSI and other churches of Scientology have conducted highly-successful social reform programs based on Mr. Hubbard's technologies. They conducted these programs either directly or in close conjunction with charitable and educational organizations formed to help them bring Mr. Hubbard's technologies to the secular world. In addition to these technical organizations churches of Scientology support and work closely with several other charitable organizations that are active in various fields of public interest, particularly combatting psychiatric abuse and governmental corruption.

1. Association for Better Living and Education

The bulk of CSI's social betterment program is carried out under the supervision and direction of Association for Better Living and Education ("ABLE"), a California nonprofit public benefit corporation formed in

November 1988. ABLE's sole purpose is to improve society through the application of Mr. Hubbard's social betterment technologies. In general, ABLE promotes, funds and provides assistance to organizations that use L. Ron Hubbard's technologies in education, in rehabilitating drug abusers and criminals, and in raising public morality in general.

ABLE accomplishes its goals primarily by providing technical and financial assistance and general promotional support to the international social-betterment organizations that work in ABLE's four areas of concern: Narconon International (drug rehabilitation), Applied Scholastics (education), The Way To Happiness Foundation (public morality) and, though not yet incorporated, Criminon (criminal rehabilitation). These four international organizations, in turn, assist organizations that work in their respective fields at the local level.

ABLE is responsible for ensuring that the programs that use the names referring to Mr. Hubbard's

social-betterment technologies -- Narconon, Applied Scholastics, The Way To Happiness and Criminon -- meet the high standards of quality with which they have come to be associated. ABLE discharges this responsibility by permitting the international social-betterment organizations and local organizations to use the names subject to ABLE's ultimate supervision.

ABLE assists social-betterment organizations in other ways. It provides technical assistance when necessary to help them better achieve their program goals. It helps raise funding to support their charitable programs. It promotes their programs throughout society through the printed media as well as radio and television. It also will provide social-betterment organizations the physical facilities necessary to house their charitable and educational programs. A representative sample of an ABLE publication, INROADS MAGAZINE, is included as Exhibit 64.

ABLE is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

a. Narconon International

Narconon International is a nonprofit corporation that gives overall guidance and technical assistance and support to local organizations that use Mr. Hubbard's technology to rehabilitate drug users. Narconon -- meaning "non-narcosis" or "no drugs" -- started in the mid-1960s when a prisoner in the Arizona State Penitentiary applied principles expounded in one of Mr. Hubbard's books to solve his drug problem as well as the drug problems of many of his fellow inmates. This one-man crusade flourished into a grassroots movement that eventually moved from penal institutions out into society as a whole.

Today, the Narconon program has developed into a two-pronged assault on the world's drug problem: it encompasses an extraordinarily effective residential rehabilitation program as well as an objective, hard-

hitting public education program. At present, there are 33 residential Narconon centers in various countries, including the United States, Canada, Spain, Italy, Switzerland, France, Germany, Holland, Sweden, Denmark, and England. Current plans are to establish a Narconon center near each of th 100 largest cities in the world. The Narconon program of activities is described in detail in the attached booklets, Narconon, Drug Rehabilitation and Education Services, Narconon Chilocco New Life Center, and Narconon Drug Prevention & Rehabilitation Services 1992 Annual Report. (Exhibits 65, 66 and 67). Also see pages 407-417 of WHAT IS SCIENTOLOGY?, (Exhibit 9), for further information on the Narconon program.

Narconon International was formed in 1970 to formalize what was then a loose, grassroots movement, to help establish Narconon programs throughout the world, and to provide local centers the same sort of guidance and technical assistance and support that ABLE provides it. Narconon International also permits local centers to use the name Narconon. In exchange, local centers support Narconon International's program by providing it

with ten percent of the funds they receive in connection with their Narconon activities. Narconon International also runs a 26-bed rehabilitation center in Los Angeles under the name Narconon Los Angeles.

Narconon International has a group exemption ruling under section 501(c)(3) dated January 20, 1975, and the four Narconon centers now operating in the United States are exempt under this group ruling.

b. Applied Scholastics

Applied Scholastics has overall responsibility for furthering the application of Mr. Hubbard's educational technology throughout society as a whole. This technology consists of a number of very basic yet powerful principles of learning that Mr. Hubbard developed into a methodology for grasping any subject of study. This technology already is bringing about remarkable results throughout the world in improving the ability of individuals to learn and to apply what they learn. The technology has been translated into 12 languages and is in use in schools and by tutors in the

United States, Canada, Russia, China, Pakistan, Australia, South Africa, Latin America and much of Europe. More than 30 schools ranging from pre-school to high school are using this technology in the United States. A description of this educational program is contained in the attached booklet Applied Scholastics International -- Achieving Quality Education In Communities Around the World, (Exhibit 68) and also pages 422-431 of WHAT IS SCIENTOLOGY?, (Exhibit 9), for further information on Applied Scholastics.

The schools and other local educational organizations that use the name Applied Scholastics in their educational programs do so pursuant to the authorization of Applied Scholastics, Inc., a nonprofit educational organization located in Los Angeles, which provides the schools overall guidance and technical assistance and support. In exchange, the schools support Applied Scholastics' program by providing it ten percent of the funds they receive in connection with their Applied Scholastics' activities.

The IRS recognized Applied Scholastics' exemption under section 501(c)(3) by determination letter dated December 22, 1972.

c. The Way to Happiness Foundation

The Way To Happiness Foundation takes its name from Mr. Hubbard's book, The Way To Happiness, a very basic, non-religious moral code of fundamental principles and values for living an ethical and happy life. (A copy of The Way To Happiness is attached as Exhibit 69.) Since it was first published in 1981, tens of millions of copies of The Way To Happiness have been distributed throughout the world, and it has served as the genesis of thousands of community and school programs to combat moral decline and juvenile delinquency. To date, most of the community service projects based on The Way To Happiness have come about through the work of The Way To Happiness Foundation (the "Foundation") or Concerned Businessmen's Association of America (the "Association"). See pages 432-439 of WHAT IS SCIENTOLOGY?, Exhibit 9, for further information on the Foundation and the Association.

The Foundation is a nonprofit California public benefit corporation formed for the purpose of raising the moral standards of society through the dissemination of The Way To Happiness moral code. It is funded primarily by contributions from the general public and churches of Scientology. The Association is a nonprofit California public benefit corporation formed for the purpose of bringing together business people with an interest in raising social values. While the Association works closely with CSI and other churches of Scientology, it is an autonomous organization wholly independent of the Scientology ecclesiastical hierarchy. (None of its directors or officers serve on the staff of a Scientology church or organization.) The IRS has recognized the Association's exemption under section 501(c)(3) by letter dated December 17, 1981. The Foundation is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

d. Criminon

Criminon (meaning "no crime") is a social-betterment program using Mr. Hubbard's technologies to rehabilitate

criminals in the penal system. It currently consists of a system of several independent and supervised courses and drills, including an extension course based on The Way To Happiness, that has been carried out as special projects between Narconon International and interested volunteers. Although the Criminon program is just beginning to get underway, already The Way To Happiness extension courses are being delivered in 57 prison facilities in the United States and in Canada. As Criminon programs become better established, they will work within the penal system to provide needed assistance and help bring about necessary reforms and also will work closely with Narconon programs to address drug use in prisons, a major problem in criminal rehabilitation. (See pages 418-421 of WHAT IS SCIENTOLOGY?, Exhibit 9, for further information on Criminon.)

Narconon International currently is assisting in the formation of the first formal Criminon program to take place in the Los Angeles area. An international Criminon to supervise and coordinate the activities of local Criminon programs will be formed in the future as a

nonprofit corporation that will qualify for tax-exempt status under section 501(c)(3). Once it is formed and obtains exemption, ABLE will license it the right to use the Criminon name under the same arrangements as those for Narconon and Applied Scholastics. The international organization, in turn, will be supported by the local organizations and will permit them to use the name Criminon in their rehabilitation programs under its general supervision.

2. Citizen's Commission on Human Rights

Citizen's Commission on Human Rights ("CCHR") is a research and educational organization dedicated to investigating, publicizing and eradicating violations of human rights committed through the guise of psychiatric "treatments" and to recommending viable alternatives to such practices through an extensive program of objective educational and outreach activities. (Educational brochures CCHR published based on its research are included as Exhibit 70 and CCHR is further described on pages 384-393 of WHAT IS SCIENTOLOGY?, Exhibit 9.) It works in close liaison with a social reform program

sponsored by Scientology churches and serves as a clearinghouse and coordinating body for the many local CCHR chapters that are forming throughout the world. CCHR is funded primarily with contributions from the general public and churches of Scientology. CCHR is a California nonprofit public benefit corporation. The IRS recognized CCHR's exemption under section 501(c)(3) by determination letter dated May 23, 1990. CCHR has a pending request for a group exemption ruling under section 501(c)(3).

3. National Commission on Law Enforcement and Social Justice

National Commission on Law Enforcement and Social Justice ("NCLE") is a recently formed nonprofit corporation that operates exclusively for the purpose of guarding against and correcting abuses resulting from corruption in law enforcement and other governmental agencies that violate the United States Constitution or the Universal Declaration of Human Rights. NCLE is an outgrowth of public interest activities conducted for over 20 years by various churches of Scientology. NCLE

plans to continue the research, investigation and publication begun by Scientology churches and also will undertake other activities to safeguard society from governmental corruption. It also will serve as a clearinghouse and coordinating body for the many local NCLE organizations that are forming in the United States and Europe. (See pages 393-396 of WHAT IS SCIENTOLOGY?, Exhibit 9, for further information concerning NCLE.) NCLE is ,funded primarily by contributions from the general public and various churches of Scientology.

The IRS recognized NCLE's exemption under section 501(c)(3) by determination letter dated August 9, 1990.

4. Foundation for Religious Freedom

The Foundation for Religious Freedom (the "Foundation") is a nonprofit trust operated for the exclusive purpose of safeguarding religious freedom in the United States and throughout the world. Although currently dormant, in the past it monitored for governmental and private conduct that threatened freedom of religious worship and then acted to guard against or

correct inappropriate acts. The Foundation is non-denominational and does not espouse or support the religious beliefs of any one denomination. The Foundation's primary activity was the publication of The Crusader, a bi-monthly newspaper that contained articles about current events affecting religious freedom. (Exhibit 71.) (Also see pages 398-401 of WHAT IS SCIENTOLOGY?, Exhibit 9, for a general discussion of the Church's involvement in religious freedom issues.) The Foundation was supported primarily by contributions from the general public and from various churches of Scientology.

The Internal Revenue Service has recognized the Foundation's tax-exempt status under section 501(c)(3).

5. Scientology Defense Fund Trust

Scientology Defense Fund Trust ("SDFT") is a nonprofit religious trust that was organized for the exclusive purpose of defending the human and civil rights of persons whose rights are threatened because they

belong to a church of Scientology or because of their religious persuasion. SDFT is presently dormant.

The Internal Revenue Service has recognized SDFT's tax-exempt status under section 501(c)(3).

6. Churches of Scientology

In addition to the social-betterment activities carried out under the auspices of ABLE, CCHR and other organizations formed for this purpose, as described above, Scientology churches and individual Scientologists also conduct community projects and social reform actions directly. For example, CSI periodically publishes Freedom magazine in order to bring to public attention areas of society in need of reform. (Exhibit 72.) Scientology churches have united other groups in their communities in "Say No To Drugs" campaigns, promoting anti-drug slogans through concerts, marches and distribution of promotional materials. Other community outreach activities in which Scientologists and Scientology churches are active include campaigns to improve the environment and to assist children, the

elderly and other neglected individuals. A selection of some of many thousands of news articles describing specific social-betterment projects of individual Scientology churches and Scientologists is attached as Exhibit 73, Chapter 23 of WHAT IS SCIENTOLOGY?, Exhibit 9, and Exhibit 21, The Church of Scientology, a Vital Force in Your Community.

E. Membership Organizations

Over the years the religion of Scientology has had several different membership programs. At present, there are two. One, the Sea Organization, is a Scientology religious order and is composed of Scientologists who have dedicated their lives to the religion. The International Association of Scientologists is a membership program open to clergy and laity alike, serving as an expression of its members' desire to propagate the faith.

1. The Sea Organization

The Sea Organization or Sea Org is a religious order of the Scientology faith that was formed aboard sea-going ships in the late 1960s.

In 1967, having retired from his position as Executive Director of the Church, Mr. Hubbard set to sea with a handful of dedicated Scientologists to conduct his researches. This original group was called the "Sea Project". One such project concerned the establishment of a safe base where the newly researched and evolving upper bands of spiritual awareness, the OT levels, could be delivered and where Mr. Hubbard could research higher OT levels.

The term "Sea Project" was a temporary name which soon became a misnomer because it was in fact an ongoing activity that was expanding its field of operations. Another name was needed to identify this original group and they adopted the name "Sea Organization". The original Sea Org crew chose not to use the usual 5-year staff contracts that were in use at that time and instead

adopted one which is not a contract in any legal sense but rather a pledge or commitment and set a term of one billion years. This term reflected both their dedication to the religion of Scientology and their awareness of themselves as immortal spiritual beings who have lived countless lives and who will live again and again.

At its inception, the Sea Org was in fact an ecclesiastical organization. The Sea Org was the crew of the original Sea Org vessels. However, the Sea Org rapidly grew and soon was no longer a single ecclesiastical organization but evolved into a religious order.

The activities of the Sea Org continued to expand its activities. The Executive Council Worldwide ("ECWW") in England, to whom Mr. Hubbard had entrusted the management of the Church upon his retirement, failed in its duties and the Church experienced a decline in the late 1960s. After several unsuccessful attempts to rectify the matter, ECWW was disbanded and management of the Church was assumed by the newly formed Flag Bureaux,

comprised of Sea Org members aboard the Flagship Apollo. Within a short time of its inception, Sea Org members were not only manning the original ships, but land bases as well, such as the Advanced Organizations in Los Angeles and Denmark. By then the Sea Org not only spanned different ships and locations, but different corporations as well. Each ecclesiastical organization had its own organizational command and corporate structures, separate and apart from the Sea Org. But Sea Org members staffed important organizations, specifically all management level organizations and all organizations that delivered the advanced technology.

The main thing that sets Sea Org members apart from other Scientology staff is the eternal commitment to the religion. The original billion year staff contract is still in use (Exhibit 74) and this commitment has an intensely personal and deeply religious significance to a Scientologist.

The approximately 5,000 Sea Org members around the world serve as staff of Sea Org orgs. They are subject

to the ecclesiastical governance of their church organizations and to the board of directors of the corporations which house these ecclesiastical units.

In addition to their eternal commitment to the religion, Sea Org members share tradition and lifestyle. They wear maritime uniforms when on duty and have a merit-based maritime ranks and rating system and etiquette. Sea Org members live communally in church-provided berthing and eat in common dining halls. They generally receive a small weekly allowance (currently $50 per week) and occasional small performance bonuses, plus uniforms, medical, dental and child care. In some instances, Sea Org members serving in secular corporations receive minimum wage as required by law - in which case they pay for their own living expenses. Sea Org members may also receive commissions from sales of Church bookstore items or small commissions from fundraising (currently 1/8 to 1/4 of a percent of funds raised).

The Sea Org is not an organization in any usual sense of the term. The Sea organization is not incorporated, nor is it an unincorporated association, and it has no formal or informal ecclesiastical or other structure. It has no income, disbursements, assets or liabilities.

The Sea Org has no organizational existence apart from the corporate and ecclesiastical hierarchy of the Scientology religion. While rank is an honor and is accorded prestige and respect with the Sea Organization, it is separate and distinct from the level of authority one has in the Church hierarchy. Relationships where a person holding a lower rank is in a senior capacity to one holding a higher rank are not uncommon in the Church hierarchy.

The Sea Org exists as a spiritual commitment to the transcendent goals and purposes of the Scientology religion.

The Sea Organization is also described on page 360 of WHAT IS SCIENTOLOGY?. (Exhibit 9.)

2. International Association of Scientologists

Since 1984 CSI has recognized International Association of Scientologists ("IAS") as the membership organization for Scientologists. The purposes of IAS are to assure the continued practice and expansion of Scientology throughout the world, to assist churches of Scientology when needed, and to maintain communications with Scientologists on matters of common concern. It is an unincorporated religious membership association composed of individuals, churches of Scientology and national associations of Scientology. (See Chapter 22 of WHAT IS SCIENTOLOGY?, Exhibit 9, for a description of IAS.)

IAS is organized and has operated exclusively for Scientology religious purposes. It is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

F. Miscellaneous Organizations

1. Building Management Services

Building Management Services ("BMS") is a nonprofit religious corporation that serves as an integrated auxiliary of CSI by holding title to real estate in Southern California that CSI and various churches of Scientology use. (BMS acquired its real estate holdings from Church of Scientology Religious Trust, which provided it with properties and a loan valued at $25 million and a grant of approximately $2.5 million.) BMS leases its properties to churches of Scientology at very reasonable rates designed to cover only its obligations without producing any surplus. BMS has no staff; CSI staff personnel manage both its accounts and its property.

BMS is governed by a board of three directors who are elected by CSI which is BMS's sole voting member (there are no other members). Copies of BMS's articles of incorporation, amendment thereto and bylaws are attached as Exhibits 75, 76 and 77, respectively. BMS is

filing an application for recognition of its exempt status under section 501(c)(3) concurrently with this application.

2. World Institute of Scientology Enterprises

World Institute of Scientology Enterprises ("WISE") is a California nonprofit religious corporation. It is a membership organization comprised of businessmen and professionals in many fields who recognize that the principles and technology of third dynamic (group) organization and administration developed by Mr. Hubbard for use in churches of Scientology has a broad application to any group - be it a social club, a business or a government body. WISE members share a common goal of improving both their own organizations and society at large through the application of Scientology administrative and ethics technologies. (WISE is described in Chapter 26 of WHAT IS SCIENTOLOGY?, Exhibit 9.)

WISE ensures that Scientologists who operate commercial enterprises do not interfere with church

activities by conducting or soliciting business on church premises or hiring church staff members.

Scientology's ethics and justice system is uniquely based on truth. It contains simple but highly effective procedures to get to the bottom of any situation and administer justice based on the actual facts. There is no room for smokescreens of legal technicalities nor playing on emotion or prejudice. Even the party found in fault in a Scientology justice matter ultimately wins because he or she is brought to see the error of his ways and is given an exact set of steps to follow toward redemption and a higher level of ethical conduct.

Because of its effectiveness, Scientologists naturally prefer to utilize Scientology ethics and justice procedures to resolve disputes over any other system. Churches of Scientology do not have the resources to minister these services to Scientologists who are involved in civil disputes in their work-a-day world and in any event it is not fitting that the Church should involve itself in such matters. On the other

hand, it is Church policy that Scientologists who are involved in civil suits with each other cannot participate in religious services until the matter is resolved -- so an organizational solution to ministering Scientology ethics and justice is necessary for the spiritual advancement of parishioners. (Scientology's ethics and justice system is covered in Chapter 16 of WHAT IS SCIENTOLOGY?, Exhibit 9.)

Accordingly, WISE establishes self-governing local Charter Committees to deal with civil disputes amongst Scientologists. They are comprised of Charter members who are among the most experienced and ethical WISE members and who are specially trained in Scientology ethics and justice procedures. These Charter Committees have proven so effective at delivering swift, economical and fair justice that non-Scientologist WISE members often utilize their services.

WISE also is responsible for licensing commercial enterprises offering secular services under the Scientology or Dianetics marks or secular works derived

from Mr. Hubbard's copyrighted works to ensure usage does not violate the Scriptures. WISE members pay membership dues at rates that vary depending on the member's membership class.

During Mr. Hubbard's life WISE was authorized to license and supervise the use of certain marks associated with Scientology and Dianetics to commercial enterprises pursuant to an agreement between it and New Era Publications. This license is now from Mr. Hubbard's testamentary trust to WISE. All such use is subject to CSI's supervision to ensure Scriptural mandates are not violated. (Exhibit 78.)

WISE also is responsible for licensing commercial enterprises offering secular services under the Scientology or Dianetics marks or secular works derived from Mr. Hubbard's copyrighted works to ensure usage does not violate the Scriptures. WISE members pay membership dues at rates that vary depending on the member's membership class.

3. Hubbard College of Administration

The Hubbard College of Administration (the "College") is a California nonprofit public benefit corporation formed for the purpose of educating interested members of the general public in theories and techniques of administration based on principles developed by L. Ron Hubbard concerning the structure, management and administration of organizations (the "administrative technology").

The College began its activities in 1991 and has not yet implemented all the activities that it plans to conduct. However, when fully operational, the College's program of educational activities will consist of providing courses, workshops and seminars to the general public in the administrative technology, teaching individuals how to educate others about the administrative technology, establishing other Hubbard Colleges of Administration that will conduct similar activities on a local level, and compiling publications and course materials on organizational administration and management.

At present, the College's primary activity is to conduct a school in Mr. Hubbard's administrative technology. The College offers courses, seminars and workshops on specific aspects of Mr. Hubbard's administrative technology and plans to expand this activity in the future. The College also has assisted in the establishment of Hubbard Colleges of Administration in other cities in the United States and abroad. These colleges duplicate the College's activities on a more local or regional level. There are currently eleven such local Colleges, five of which are located in the United States (in Clearwater, Florida, Atlanta, Georgia, New York, Philadelphia, and Santa Clara, California). (See page 446 of WHAT IS SCIENTOLOGY?, Exhibit 9, for further information on HCA.)

The College is filing an application for recognition of its exemption under section 501(c)(3) concurrently with this application.

4. Inspector General Network

As discussed earlier, in countries where agreements by religious organizations are not enforced the rights to the Scientology marks are granted to local organizations through a system of secular corporations that serve as integrated auxiliaries of RTC and CSI. These secular corporations mirror the roles of RTC and CSI in licensing the religious marks within the Scientology ecclesiastical hierarchy.

Under this secular system, rights to the Scientology religious marks are nominally held for the benefit of RTC by Inspector General Network ("IGN"), a California nonprofit public benefit corporation that serves as RTC's integrated auxiliary.

IGN serves as RTC's nominee and is authorized to permit other organizations to use the marks in countries where it owns them (a copy of the agreement between RTC and IGN is attached as Exhibit 79). RTC retains reversionary rights to the marks if, in the sole judgment of RTC, IGN fails to preserve the ethical use of the

marks in accordance with Scientology Scripture and policy. IGN has no staff of its own, and its activities, which consist exclusively of registering, maintaining and enforcing the marks, are carried out by the staff of RTC.

IGN has granted the authority to permit organizations to use the marks in countries where it is the nominal trademark owner to Dianetics Foundation International ("DFI"), a California nonprofit public benefit corporation that serves as CSI's integrated auxiliary. (A copy of the agreement between IGN and DFI is attached as Exhibit 80.) DFI's primary activity is to authorize organizations similar in function to Class V churches to use the marks. DFI also enters into agreements with these organizations concerning the care of their parishioner's confidential information. (Exhibit 81.) DFI has no staff of its own, and all its activities, which consist of entering into agreements with organizations as needed, are carried out on its behalf by the staff of CSI.

DFI, in turn, has granted the authority to Dianetics Centers International ("DCI"), a California nonprofit public benefit corporation that serves as CSI's integrated auxiliary, to permit newly-formed and smaller organizations to use the Scientology religious marks. (A copy of the agreement between DFI and DCI is attached as Exhibit 82.) DCI, in effect, functions as SMI, but only in countries that do not enforce contracts with religious corporations. It enters into agreements with these smaller organizations with respect to use of the Scientology religious marks (Exhibit 83) and the care of parishioner confidential information. DCI has no staff of its own, and all its activities are carried out by the staff of SMI.

IGN, DFI and DCI are filing applications for recognition of their exempt status under section 501(c)(3) concurrently with this application.

5. Hubbard Dianetics Foundation

Hubbard Dianetics Foundation ("HDF") was formed in 1985 as an integrated auxiliary of CSI to assist CSI in

disseminating the religion to the general public. CSI uses HDF to mail out literature on Dianetics and to sponsor an 800 telephone number members of the general public can call to obtain more information on Dianetics. HDF has no income; its operating expenses are paid directly by CSI.

HDF is a nonprofit religious corporation. It is governed by a board of directors elected by a board of trustees. (Copies of its articles of incorporation, amendments thereto and bylaws are attached as Exhibits 84, 85 and 86, respectively.) HDF's trustees and directors must be ministers of Scientology in good standing with CSI. None are compensated for their services as trustees, directors or officers. HDF is applying for recognition of its exemption under section 501(c)(3) concurrently with this application.

G. Funding and Reserves

1. Funding

The primary source of funding for the Scientology ecclesiastical hierarchy is its congregation -- the thousands upon thousands of individual Scientologists throughout the world who contribute to their churches, usually with respect to their participation in religious services. For most churches of Scientology, these contributions cover their current operating expenses, and generally it is only the very large churches that raise sufficient funding to set aside significant reserves to finance the large-scale projects that are necessary for continued expansion of the faith. (Administration of these reserve funds is discussed below.) As discussed above, ecclesiastical management organizations like CSI, SMI and IHELP are indirectly supported by parishioners' contributions since they are funded by the churches and missions that they manage.

Like other religious and charitable organizations, churches of Scientology rely on individuals (called Field Staff Members ("FSMs")) to help raise financial support.

Pursuant to Scientology policy, successful FSMs receive a fundraising commission of ten to fifteen percent of the contributions they raise for religious services. If a church staff member is the FSM, the commission is paid to his or her church. Individuals who help disseminate Scientology Scriptural materials receive five to fifteen percent of the amount of their sales.

Missions and Class V churches deposit the fixed contributions they receive directly in their bank accounts and apply the receipts toward their current expenses, even though the contributing parishioners may not participate in services until far in the future. On the other hand, higher United States churches (CSWUS and CSFSO) forward their advance contributions to trusts established for the benefit of the contributors until they actually receive the services in question or direct that the contributions be transferred to another church of Scientology.

Two trusts have been established to administer advance contributions to CSWUS and CSFSO. Both are

integrated auxiliaries of CSI. One trust, United States Parishioners Trust ("USPT"), holds advance contributions of parishioners from the United States to both CSWUS and CSFSO; the other trust, Trust for Scientologists ("TFS"), holds advance contributions of parishioners from foreign countries to CSFSO.

USPT's sole function is to hold advance contributions by United States parishioners for religious services at CSWUS and CSFSO. Pursuant to the terms of USPT's trust instrument, interest earned on its corpus may be distributed only for purposes of the Scientology faith that are consistent with section 501(c)(3). In actual operation, its income, which consists almost exclusively of returns on investments, is distributed to Church of Scientology Religious Trust (see description under "reserves" section below), except for what is necessary to cover any operating expenses that it incurs, including legal and accounting fees. USPT has no staff, and it is administered by CSI staff personnel.

TFS's sole purpose is to hold advance contributions by foreign parishioners for religious services at CSFSO. Pursuant to the terms of TFS's trust instrument, any interest earned on its corpus may be distributed only for purposes of the Scientology faith that are consistent with section 501(c)(3). In actual operation its income, which consists almost exclusively of returns on investments, is distributed to Scientology International Reserves Trust (see description under "reserves" section below), except for what is necessary to cover its operating expenses, including legal and accounting fees. (On a few occasions TFS has also made distributions to Flag Ship Trust.) TFS also has no staff. Its affairs are administered by SOR Services, a wholly-owned subsidiary of Scientology International Reserves Trust that performs administrative, bookkeeping and banking services for certain Scientology reserves entities and churches.

Once CSI's exemption is recognized, both USPT and TFS will dissolve and distribute their assets to appropriate tax exempt organizations recognized under Section 501 (C)(3) of the Internal Revenue Code in

accordance with the dissolution clauses of their respective trust instruments.

2. Reserves

Like other hierarchical churches, the Scientology ecclesiastical hierarchy maintains a reserves system to fund important long-term programs and extraordinary projects that benefit the entire faith such as capital development, broad-scale dissemination and defense.

The principal body within the ecclesiastical hierarchy responsible for managing central reserves is CSI's Reserves Committee. The Reserves Committee ensures that reserves are kept safe, expended only for purposes of the religion, and are increased to assure continued expansion of the faith and broader defense and dissemination of the religion.

Reserves accounts are funded through different procedures, depending on the church or trust involved. SMI and IHELP, for example, use the tithes they receive to cover operating expenses and use any excess as

reserves to apply toward programs that benefit their subordinate organizations and the hierarchy in general, such as dissemination. Class V churches participate in the reserve system indirectly, through CSI. Class V churches make weekly payments to CSI which are credited against CSI's billings for ecclesiastical management services, payments which are determined primarily on the particular church's ability to pay rather than by reference to specific billings. While these funds are subject to CSI's control, they are used for purposes that benefit the religion as a whole -- usually for capital expenditures or for dissemination or defense -- rather than for CSI's routine operating expenses.

CSFSO, on the other hand, funds its reserves accounts directly. Each week, CSFSO allocates its receipts among its operating expenses and the payments that it makes to CSI (as discussed above). Any excess of receipts over these expenses is transferred directly to CSFSO's reserves accounts.

Generally, all important Scientology churches and organizations participate in the central reserves system. In addition, two Scientology religious trusts participate in the reserves system by functioning like special endowment funds. One, Church of Scientology Religious Trust ("CSRT"), is a Scientology religious trust formed in 1981 to serve as a reserves trust for funds of United States churches. In 1982 CSI directed United States churches to send their management payments to CSRT. In 1985 CSI instructed churches to pay it directly so CSRT no longer receives these payments. The other, Scientology International Reserves Trust ("SIRT"), is a Scientology religious trust formed in late 1988 to serve as the Scientology reserves trust for funds of foreign Scientology entities. SIRT performs the same function as CSRT except that it serves foreign Scientology entities. The IRS has recognized CSRT's exemption under section 501(c)(3) by determination letter dated May 31, 1983. CSRT is filing a ruling request concurrently with this application in order to update its administrative record. SIRT is filing an application for recognition of its

exemption under section 501(c)(3) concurrently with this application.